

CITY OF SOMERS

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

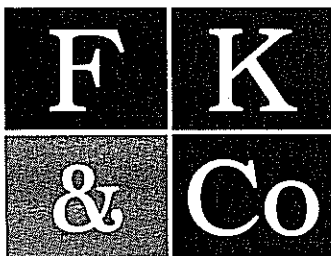
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City of Somers

Officials

<u>Name</u>	<u>Title</u>	Term
		<u>Expires</u>
Tom Lawman	Mayor	Jan 2015
Dan Goodwin	Council Member	Jan 2015
Jerry Lawman	Council Member	Jan 2015
Lance Peed	Council Member	Jan 2015
Helen Schroeder	Council Member	Jan 2015
Tom Beacon	Council Member	Jan 2015
Eileen McGuire	City Clerk	Indefinite
Darren Drisoll	City Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Somers pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Somers for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

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9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Somers, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Somers, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Somers and other parties to whom the City of Somers may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Somers during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLLC

November 17, 2014

CITY OF SOMERS

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

(C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

CITY OF SOMERS

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(D) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for the four meetings tested.
- A list of all approved claims was not posted for the four meetings tested as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and post total disbursements from each fund, summary of all receipts and the list of approved claims as required.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

(F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

(G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 50% to the General Fund, 25% to the Drainage Fund and 25% to the Water Loan Fund. All of the local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

CITY OF SOMERS

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (H) Financial Condition – At July 31, 2014, the City has a deficit balance of \$41,028 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (J) Payroll – Payroll taxes and IPERS are being calculated properly and deducted from the employee's paychecks. However, the IRS Form 941's reported the incorrect amount of wages subject to federal withholding.

Also the City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that one vendor was paid for services greater than \$600 and should have been issued a Form 1099.

Recommendation – The City should ensure future IRS payroll tax forms are calculated and filed properly. Also the City should file IRS Forms 1099 when applicable.

- (K) Water Revenue Notes – The provisions of the water revenue notes resolution requires the City produce net operating receipts equal to at least 110% of the principal and interest on notes falling due in the same year. Since the City's Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

The provisions of the water revenue notes also require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose to making the note principal and interest payments when due. The City has not made the required transfers to this account.

CITY OF SOMERS

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments falling due in the same year. The City should also establish a water revenue note sinking account and ensure monthly transfers are made to the water revenue note sinking account as required.

(L) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
John McGuire, Spouse of Clerk	Snow plow services	\$4,760

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with John McGuire may represent a conflict of interest since the total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

(M) Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

(N) Certified Budget – The City's budget documents did not list two of the City's long-term debt issues on the budget's long-term debt schedule filed with the State of Iowa. The listing of the City's debt on the long-term debt schedule in the budget documents is required by the State of Iowa.

There was no evidence in the City Council minutes that a public hearing was held on the fiscal year 2014 budget, as required by Chapter 384.16(3) of the Code of Iowa.

CITY OF SOMERS

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should ensure all of the City’s long-term debt is listed on the long-term debt schedule in the budget as required by the State of Iowa. In addition, the City should ensure that public hearings are held when required and that the City Council minutes document all public hearings.

- (O) Debt Service – For the year ended June 30, 2014, the City levied a debt service levy of \$3,845. However, there was no documentation that the City issued general obligation debt which was payable from an annual levy on all taxable property in the City.

Chapter 76.2(1)(a) of the Code of Iowa states:

“The governing authority of a political subdivision ... before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full.”

As a result, pursuant to Chapter 76.2 of the Code of Iowa, a copy of the bond resolution should have been filed with Calhoun County for the County Auditor to verify the debt as a general obligation subject to “the assessment of an annual levy upon all the taxable property in the political subdivision.”

Recommendation – The City should consult bond legal counsel regarding this matter.

- (P) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...”. The City’s Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City’s records. In addition, the City did not report one debt issue and incorrectly reported another debt issue on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that all debt of the City is accurately included on future Annual Financial Reports.